

## Chapter 1.

economic behavior of small economic units → consumers, workers, manager, markets, entrepreneurs

Factors that influence decisions

Microeconomics = price theory

microeconomics = small

def

microeconomics = concerned with all the individuals or separate units which play a part in the functioning of the economy

microeconomics involves a study of the way in which individual decisionmakers, functioning as consumers or producers use their limited resources in an attempt to achieve their respective economic goals namely the maximisation of utility and profit.

Macroeconomy deals with economy in the whole / large.

Micro = operation of economy at the level at where basic decisions are taken

Macro → total economy behavior + performance of economy as a whole.

## Scarcity Problem

\* Material wants are unlimited and can never fully be satisfied while economic resources (produce the goods + services) are limited / ~~scarce~~ scarce.

→ Unlimited wants

→ Utility → satisfaction or pleasure

eg: house, car, travel, tv etc

2 types of utilities → essentials (food, clothes etc)

→ luxuries (perfumes, travel, jewelry)

Services satisfies consumer wants - operation, haircut, legal repairs to car etc

difference between goods + services not always clear.

eg. washing machines / cars purchased for services they provide.

Material wants include business + state wants eg. business needs space, trucks, machinery, communication systems  
state needs → hospitals, schools, military equipment.

Material wants of a society is unlimited or insatiable / can never be met in full.

→ individual's wants can be met for one service / product but they ~~can~~ <sup>can</sup> never be satisfied for goods / services in general

→ new products → new wants

→ consumer not satisfied and wants better eg: Black + white TV

→ color → plasma - etc.

\* At any given time the individuals + institutions that make up a society have innumerable unfulfilled wants

→ some wants ~~has~~ have a biological origin.

→ others influenced by customs + standards of society  
eg types of food, housing, clothes, which people may want is mainly determined by the social / cultural environments in which they live

→ wants change + multiply over time - process is aided by the development of new products + advertising + sales promotion.

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## Limited Resources

economic resources → factors of productions used to produce goods/services

→ natural

not easily replaceable | land, oil, water, animals etc.

→ human | Labour

depends on population size

quality more important than quantity

limits to both quantity + quality of labour especially short term.

→ manufactured resources | Capital Goods

Money is NOT an economic resource

machinery buildings etc all used to produce the consumer goods that satisfy the need

not unlimited - wear + tear / technological obsolescence.

must replace capital goods from time to time

→ Entrepreneurial ability

\* special talent

→ ability to take initiative + have the drive to combine the factors of production capital | labour + natural resources in such a way that goods or services are produced.

→ important business decisions that shape the course taken by an enterprise.

→ risk taker - successful or bankrupt.

Income owners of factors of production earns: Rent | wages /  
 interest | profit. natural | labor /  
 capital | entrepreneur.

Economic + Free Goods

Economic good → product produced @ a cost by using scarce factors of production  
 → scarce goods

Free good is a good that is NOT scarce + has no price  
 eg: sunshine | air | seawater.

Gifts of nature considered a free good because not produced by man but often time + trouble are required to make them available to the consumer. eg. Minerals mined at a high cost. ~~dist~~ distribution of water is very expensive.

Final Goods + intermediary goods

Final Goods → used by Consumer eg food clothing

intermediary → goods sold to be used as inputs to produce a final product - STEEL ← is an intermediary product.

## Task of the economic System

↳ what

↳ how

↳ for who

\* What should be produced?

→ what goods + services.

→ what quantities?

→ can't produce all goods + services there is a need for has to make a choice

→ choice is decided by price mechanism

only goods will be produced for which consumers are able + prepared to pay at a price that is at least high enough to cover all production costs

→ consumer permit the manufacture of a product by being willing to pay more for it.

eg Rise in chicken drop in milk price - farmers produce more chickens + less milk.

→ reduction in price prepared to pay → less of product will be produced.

\* How should it be produced?

→ economic way resources are combined to produce the good or service.

→ important that resources be used efficiently as possible

⇒ way the economic resources are combined in the production process is determined by the price mechanism

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prices of resources are relative to their scarcity.

+ firms combine economic resources in such a way that costs are kept to a minimum.

→ Price of a resource increase firms will try to use less of it eg. minimum wage increase could lead to use of more machinery instead of labor.

For whom should these products be produced?

→ way which the output (production) is distributed among members of the community.

→ decided by price mechanism

→ income → source of expenditure + consumers "vote" for what they <sup>want</sup> ~~use~~ spending their money on particular goods.

→ individuals with unusual skills have a larger quantity of economic resources + has more "money" + have a larger influence on manufacturers to produce more of the product they want.

→ ensure that more of their needs are met.

## Economic Circular flow

decision making units → individuals  
→ firms

} interaction between core of the market ~~place~~ economy

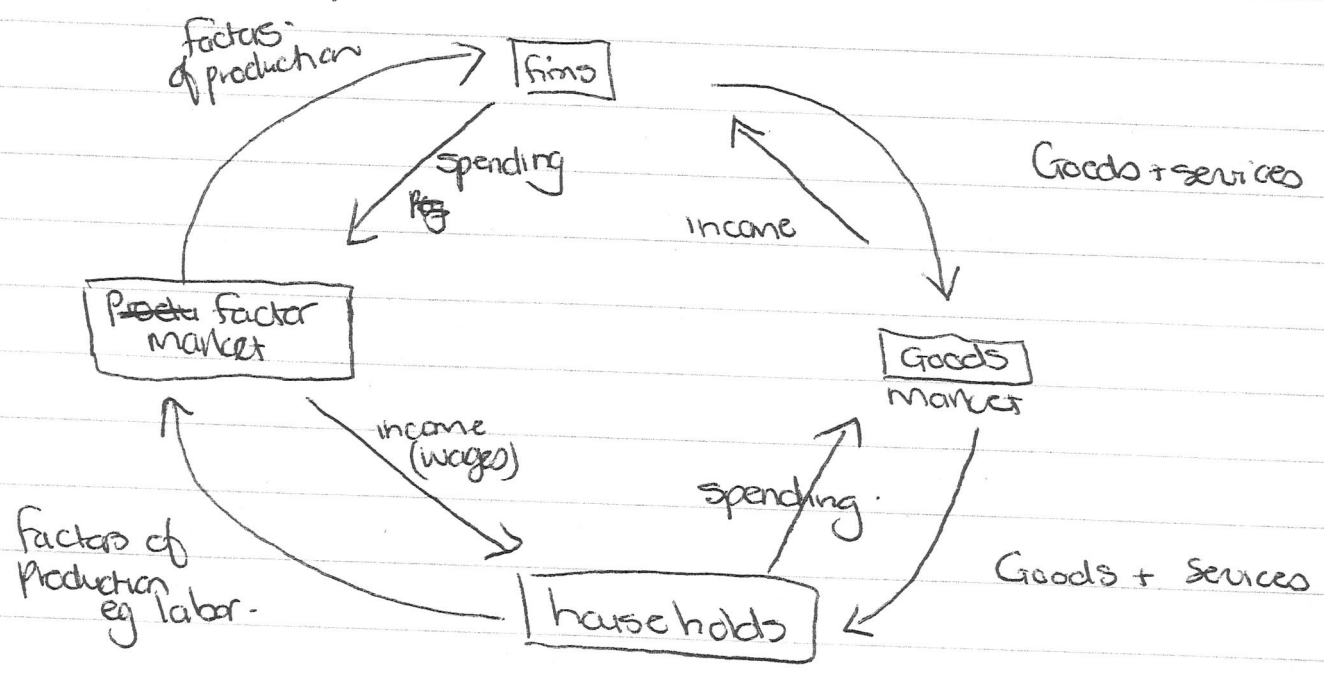
2 kinds of markets → factors of production  
→ market for goods / services

households → owners of factors of production which are required by firms to produce good & services.  
 → offer these factors of production to firms  
 → in exchange households receive payment from firms

Firms → combine factors of production to produce goods + services that is then sold on the market for consumer goods.

Income of household is also the expenditure of firms on production.

Circular flow one side → flow of goods + services from firms to households via goods market.  
 other side → opposite direction → monetary flow, factors of production from household to firms via factor market -



— Formal representation of a theory (8)

## Economic Models

aim of microeconomic theory is to explain + predict the economic behaviour of firms & individual consumers, and the operations of markets with a view to policy making

Model → formal representation of a theory  
→ simplifications or abstractions of reality  
→ purpose to make sense of extremely complicated world by only emphasizing the most important factors  
→ omits all ~~the~~ unimportant factors

A theory → good theory if it ~~sets~~ satisfies 2 requirements

- \* actually describe a large class of observations ~~based~~ on the basis of a model that contains only a few arbitrary elements
- \* it must make a definite prediction about the results of future observations

eg road map. showing all landmarks would be confusing  
Remove these show only important intersections etc = good map

13 Model → simplification of reality, its primary goal is to analyse + predict.

Stephen  
Walking



model → number of assumptions which can be used to draw/make conclusions

→ must be a simplification of a reality

→ assumptions need not necessarily reflect reality exactly in all respects

→ if not 100% in reality is ok. Provided that the model was able to predict events so reliably that it was still useful despite any inaccuracies

→ usually a result of an observation made in society. → but it needs to test in practice.

→ can be expressed by means of mathematical symbols + equations / words / ~~graphs~~ graphs / tables

Ceteris paribus ⇒ assume all variables other than the one they are specifically dealing with remains unchanged.

⇒ all other things being equal.

→ short term reasonable

→ long term more difficult to leave factors out.

### Equilibrium.

→ situation once reached, tends to persist.

→ all opposing forces are in balance

→ reluctance to change but could change.

→ ~~resistance~~

Prices

relative prices  $\Rightarrow$  relationship between the price in question and the price of other products.

$\uparrow$  in price = product more scarce

Price rises  $\Rightarrow$  producers more profits  $\Rightarrow$  more resources into manufacturing product

Rational individuals  $\rightarrow$  assume all consumers are rational + will try to maximize their utility + entrepreneurs will maximize profit

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